

Yankee Gas Services Company

Financial Statements as of and for the
Years Ended December 31, 2022 and 2021,
Together With Independent Auditor's Report

Yankee Gas Services Company
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INDEPENDENT AUDITOR'S REPORT

Yankee Gas Services Company
The Board of Directors of Yankee Gas Services Company
Berlin, CT

Opinion

We have audited the financial statements of Yankee Gas Services Company (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

March 29, 2023

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2022	2021
ASSETS		
Current Assets:		
Cash	\$ 1,172	\$ 1,912
Receivables, Net (net of allowance for uncollectible accounts of \$57,429 and \$45,696 as of December 31, 2022 and 2021, respectively)	85,400	75,841
Accounts Receivable from Affiliated Companies	14,288	5,333
Unbilled Revenues	16,507	13,440
Natural Gas, Materials and Supplies	54,443	29,317
Regulatory Assets	107,300	69,884
Other Current Assets	12,941	15,407
Total Current Assets	292,051	211,134
Property, Plant and Equipment, Net	2,255,761	2,077,383
Deferred Debits and Other Assets:		
Regulatory Assets	204,817	163,569
Goodwill	287,591	287,591
Prepaid Pension	16,813	—
Other Long-Term Assets	9,019	10,193
Total Deferred Debits and Other Assets	518,240	461,353
Total Assets	<u>\$ 3,066,052</u>	<u>\$ 2,749,870</u>
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	\$ 119,900	\$ 128,300
Long-Term Debt - Current Portion	—	20,000
Accounts Payable	98,645	62,196
Accounts Payable to Affiliated Companies	19,304	21,037
Regulatory Liabilities	3,844	13,137
Other Current Liabilities	30,939	26,221
Total Current Liabilities	272,632	270,891
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	314,797	271,553
Regulatory Liabilities	208,228	181,613
Accrued Pension, SERP and PBOP	5,323	17,660
Other Long-Term Liabilities	66,284	63,268
Total Deferred Credits and Other Liabilities	594,632	534,094
Long-Term Debt	842,199	742,458
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	1,159,462	1,041,462
Retained Earnings	197,158	161,574
Accumulated Other Comprehensive Loss	(36)	(614)
Common Stockholder's Equity	1,356,589	1,202,427
Total Liabilities and Capitalization	<u>\$ 3,066,052</u>	<u>\$ 2,749,870</u>

The accompanying notes are an integral part of these financial statements.

YANKEE GAS SERVICES COMPANY
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,	
	2022	2021
Operating Revenues	\$ 706,841	\$ 609,247
Operating Expenses:		
Cost of Natural Gas	305,168	235,204
Operations and Maintenance	135,721	123,548
Depreciation	53,136	49,967
Amortization of Regulatory Liabilities, Net	(3,970)	(5,944)
Energy Efficiency Programs	21,117	18,963
Taxes Other Than Income Taxes	74,316	64,333
Total Operating Expenses	585,488	486,071
Operating Income	121,353	123,176
Interest Expense	28,097	25,096
Other Income, Net	9,746	914
Income Before Income Tax Expense	103,002	98,994
Income Tax Expense	16,218	21,796
Net Income	\$ 86,784	\$ 77,198

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31,	
	2022	2021
Net Income	\$ 86,784	\$ 77,198
Other Comprehensive Income, Net of Tax		
Qualified Cash Flow Hedging Instruments	26	26
Changes in Funded Status of SERP Benefit Plan	552	175
Other Comprehensive Income, Net of Tax	578	201
Comprehensive Income	\$ 87,362	\$ 77,399

The accompanying notes are an integral part of these financial statements.

YANKEE GAS SERVICES COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Stock	Amount				
Balance as of January 1, 2021	1,000	\$ 5	\$ 918,062	\$ 125,576	\$ (815)	\$ 1,042,828
Net Income				77,198		77,198
Dividends on Common Stock				(41,200)		(41,200)
Capital Contributions from Parent			123,400			123,400
Other Comprehensive Income					201	201
Balance as of December 31, 2021	1,000	5	1,041,462	161,574	(614)	1,202,427
Net Income				86,784		86,784
Dividends on Common Stock				(51,200)		(51,200)
Capital Contributions from Parent			118,000			118,000
Other Comprehensive Income					578	578
Balance as of December 31, 2022	1,000	\$ 5	\$ 1,159,462	\$ 197,158	\$ (36)	\$ 1,356,589

The accompanying notes are an integral part of these financial statements.

YANKEE GAS SERVICES COMPANY
STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31,	
	2022	2021
Operating Activities:		
Net Income	\$ 86,784	\$ 77,198
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	53,136	49,967
Deferred Income Taxes	27,640	13,935
Pension, SERP and PBOP (Income)/Expense, Net	(2,692)	1,952
Pension Contributions	—	(17,249)
Amortization of Regulatory Liabilities, Net	(3,970)	(5,944)
Regulatory Under Recoveries, Net	(5,901)	(18,578)
Uncollectible Expense	5,978	6,981
Cost of Removal Expenditures	(52,105)	(31,262)
Other	1,691	23,184
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(42,874)	(36,437)
Taxes Receivable/Accrued, Net	8,962	(3,009)
Accounts Payable	23,820	9,087
Other Current Assets and Liabilities, Net	(25,026)	(9,523)
Net Cash Flows Provided by Operating Activities	<u>75,443</u>	<u>60,302</u>
Investing Activities:		
Investments in Property, Plant and Equipment	(214,234)	(208,434)
Net Cash Flows Used in Investing Activities	<u>(214,234)</u>	<u>(208,434)</u>
Financing Activities:		
Cash Dividends on Common Stock	(51,200)	(41,200)
Capital Contributions from Parent	118,000	123,400
Issuance of Long-Term Debt	100,000	125,000
Retirement of Long-Term Debt	(20,000)	—
Decrease in Notes Payable to Eversource Parent	(8,400)	(56,800)
Other Financing Activities	(349)	(356)
Net Cash Flows Provided by Financing Activities	<u>138,051</u>	<u>150,044</u>
Net (Decrease)/Increase in Cash	(740)	1,912
Cash - Beginning of Year	1,912	—
Cash - End of Year	<u>\$ 1,172</u>	<u>\$ 1,912</u>

The accompanying notes are an integral part of these financial statements.

YANKEE GAS SERVICES COMPANY
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Yankee Gas Services Company

Yankee Gas Services Company (Yankee Gas or the Company) is a regulated public utility company engaged in the distribution and sale of natural gas to customers throughout Connecticut. Yankee Gas distributes natural gas to approximately 251,000 customers in 74 cities and towns in Connecticut covering 2,632 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters, by the Connecticut Public Utility Regulatory Authority (PURA). Yankee Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy (Eversource). Yankee Gas is doing business as Eversource Energy.

Yankee Gas' natural gas business provides non-interruptible (firm) natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, and to commercial and industrial customers who choose to purchase natural gas from Yankee Gas. Yankee Gas offers firm transportation service to its commercial and industrial customers who purchase natural gas from sources other than Yankee Gas. In addition, Yankee Gas offers interruptible transportation and interruptible natural gas sales service to commercial and industrial customers that have the ability to switch from natural gas to an alternate fuel on short notice. Yankee Gas can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

B. Basis of Presentation

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Yankee Gas is subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

Yankee Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are available to be issued and recognizes in the financial statements the effects of all subsequent events that provide additional information about conditions that existed as of the balance sheet date. Yankee Gas discloses, but does not recognize, in the financial statements subsequent events that provide information about the conditions that arose after the balance sheet date but before the financial statements are available to be issued. In preparing the financial statements, Yankee Gas has evaluated events subsequent to December 31, 2022 through the date the financial statements were available to be issued, March 29, 2023, and did not identify any such events that required recognition or disclosure under this guidance.

C. Cash

Cash includes cash on hand. At the end of each reporting period, any overdraft amounts are reclassified from Cash to Accounts Payable on the balance sheets. There are no restricted cash balances.

D. Allowance for Uncollectible Accounts

Receivables, Net on the balance sheets primarily includes trade receivables from retail customers, wholesale market sales, property rentals, and other miscellaneous receivables. There is no material concentration of receivables.

Receivables are recorded at amortized cost, net of a credit loss provision (or allowance for uncollectible accounts). The current expected credit loss (CECL) model is applied to receivables for purposes of calculating the allowance for uncollectible accounts. This model is based on expected losses and results in the recognition of estimated expected credit losses, including uncollectible amounts for both billed and unbilled revenues, over the life of the receivable at the time a receivable is recorded.

The allowance for uncollectible accounts is determined based upon a variety of judgments and factors, including an aging-based quantitative assessment that applies an estimated uncollectible percentage to each receivable aging category. Factors in determining credit loss include historical collection, write-off experience, analysis of delinquency statistics, and management's assessment of collectability from customers, including current economic conditions, customer payment trends, the impact on customer bills because of usage trends and changes in rates, flexible payment plans and financial hardship arrearage management programs being offered to customers, reasonable forecasts, and expectations of future collectability and collection efforts. Management continuously assesses the collectability of receivables and adjusts estimates based on actual experience and future expectations based on economic conditions, collection efforts and other factors. Management also monitors the aging analysis of receivables to determine if there are changes in the collections of accounts receivable. Receivable balances are written off against the allowance for uncollectible accounts when the customer accounts are no longer in service and these balances are deemed to be uncollectible. Management concluded that the reserve balance as of December 31, 2022 adequately reflected the collection risk and net realizable value for its receivables.

As of December 31, 2022 and 2021, the total amount incurred as a result of COVID-19 included in the allowance for uncollectible accounts was \$3.9 million and \$5.7 million, respectively. COVID-19 related adjustments to the allowance for uncollectible accounts were recorded to Operations and Maintenance expense on the statements of income.

The PURA allows Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 90 days. These uncollectible hardship customer account balances are included in Regulatory Assets on the balance sheets. Hardship customers are protected from shut-off in certain circumstances, and historical collection experience has reflected a higher default risk as compared to the rest of the receivable population. Management uses a higher credit risk profile for this pool of trade receivables as compared to non-hardship receivables. The allowance for uncollectible hardship accounts is included in the total uncollectible allowance balance.

The total allowance for uncollectible accounts is included in Receivables, Net on the balance sheets. The activity in the allowance for uncollectible accounts by portfolio segment is as follows:

(Millions of Dollars)	As of December 31, 2022			As of December 31, 2021		
	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance
Beginning Balance	\$ 27.3	\$ 18.4	\$ 45.7	\$ 15.4	\$ 16.4	\$ 31.8
Uncollectible Expense	—	6.0	6.0	—	7.0	7.0
Uncollectible Costs Deferred ⁽¹⁾	18.0	(0.4)	17.6	13.3	0.9	14.2
Write-Offs	(4.6)	(8.8)	(13.4)	(1.7)	(6.6)	(8.3)
Recoveries Collected	0.5	1.0	1.5	0.3	0.7	1.0
Ending Balance	\$ 41.2	\$ 16.2	\$ 57.4	\$ 27.3	\$ 18.4	\$ 45.7

⁽¹⁾ These expected credit losses are deferred as regulatory costs on the balance sheets, as these amounts are ultimately recovered in rates. Amounts include uncollectible costs for hardship accounts and other customer receivables.

E. Natural Gas, Materials and Supplies

Natural Gas, Materials and Supplies include natural gas purchased for delivery to customers and materials and supplies purchased primarily for construction or operation and maintenance purposes. Included in Natural Gas, Materials and Supplies on the balance sheets as of December 31, 2022 and 2021 were \$50.6 million and \$26.8 million, respectively, of natural gas inventory, and \$3.8 million and \$2.5 million, respectively, of materials and supplies. Inventory is valued at the lower of cost or net realizable value.

F. Fair Value Measurements

Fair value measurement guidance is applied to valuations of the investments used to calculate the funded status of pension and postretirement benefits other than pension (PBOP) plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill and asset retirement obligations (AROs), and the estimated fair value of long-term debt.

Fair Value Hierarchy: In measuring fair value, the Company uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. The Company evaluates the classification of assets and liabilities measured at fair value on a quarterly basis. The levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges.

Uncategorized - Investments that are measured at net asset value are not categorized within the fair value hierarchy.

Determination of Fair Value: The valuation techniques and inputs used in Yankee Gas' fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 10, "Fair Value of Financial Instruments," and Note 14, "Goodwill," to the financial statements.

G. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the balance sheets. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. For the years ended December 31, 2022 and 2021, AFUDC costs included borrowed funds of \$0.6 million and \$0.7 million, respectively.

Yankee Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings and capitalization (long-term debt and common equity), as appropriate. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC. Average AFUDC rates for the years ended December 31, 2022 and 2021 were 0.6 percent and 1.2 percent, respectively.

H. Other Income, Net

Items included within Other Income, Net on the statements of income primarily consist of the non-service related components of pension, non-qualified defined benefit retirement plan (SERP) and PBOP benefit plan income/expense, interest income, and investment income/loss.

I. Other Taxes

Gross receipts taxes levied by the state of Connecticut are collected by Yankee Gas from its customers. These gross receipts taxes are recorded separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income. For the years ended December 31, 2022 and 2021, gross receipts taxes were \$28.5 million and \$23.8 million, respectively. As an agent for the state and local governments, Yankee Gas collects certain sales taxes that are recorded on a net basis with no impact on the statements of income.

J. Supplemental Cash Flow Information

(Millions of Dollars)	As of and For the Years Ended December 31,	
	2022	2021
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	\$ 27.4	\$ 24.2
Income Taxes	(19.4)	11.4
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	28.4	20.1

K. Related Parties

Eversource Energy Service Company (Eversource Service), a service company subsidiary of Eversource, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, tax, and other services to Yankee Gas. In addition, Yankee Gas incurs costs associated with leases entered into by affiliated Eversource subsidiaries, including Eversource Service, The Rocky River Realty Company and The Connecticut Light and Power Company (CL&P), for the use of office space, service centers, information technology and office equipment. All of the aforementioned costs incurred by Yankee Gas are in the ordinary course of business.

Also in the ordinary course of business, Yankee Gas purchases natural gas transmission services from the Enbridge, Inc. natural gas pipeline project, in which Eversource parent holds an equity ownership interest. These affiliate transaction costs total \$50.1 million annually and are classified as Cost of Natural Gas on the statements of income.

Included in the balance sheets as of December 31, 2022 and 2021 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies related to transactions between Yankee Gas and other subsidiaries that are wholly-owned by Eversource.

2. REGULATORY ACCOUNTING

Yankee Gas is subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. Yankee Gas' financial statements reflect the effects of the rate-making process. The rates charged to customers are designed to collect the Company's costs to provide service, plus a return on investment.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. Regulatory liabilities represent either revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

Management believes it is probable that the Company will recover its investment in long-lived assets and the regulatory assets that have been recorded. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the applicable costs would be charged to net income in the period in which the determination is made.

Regulatory Assets: The components of regulatory assets were as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
Regulatory Tracking Mechanisms	\$ 91.9	\$ 58.2
Income Taxes, Net	77.1	65.2
Cost of Removal	51.2	9.6
Environmental Remediation Costs	45.9	43.5
Benefit Costs	17.9	40.7
Hardship Customer Receivables	19.8	7.4
Other Regulatory Assets	8.3	8.9
Total Regulatory Assets	312.1	233.5
Less: Current Portion	107.3	69.9
Total Long-Term Regulatory Assets	\$ 204.8	\$ 163.6

Regulatory Tracking Mechanisms: Yankee Gas' approved rates are designed to recover its costs incurred to provide service to customers. Yankee Gas recovers certain of its costs on a fully-reconciling basis through PURA-approved tracking mechanisms. The difference between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracking mechanisms. Yankee Gas recovers, on a fully reconciling basis, the costs associated with the procurement of natural gas for its firm and seasonal customers, system expansion costs, infrastructure improvement costs, and energy efficiency costs through rate reconciling mechanisms.

Yankee Gas has a revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues. Yankee Gas reconciles its annual base distribution rate recovery amount to the pre-established level of baseline distribution revenues. Any difference between the allowed level of distribution revenue and the actual amount realized during the reconciliation period is adjusted through rates in the following period.

Income Taxes, Net: The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the PURA and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the PURA are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 8, "Income Taxes," to the financial statements.

Cost of Removal: Yankee Gas currently recovers amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense. Expended removal costs that exceed amounts collected from customers are recognized as regulatory assets, as they are probable of recovery in future rates.

Environmental Remediation Costs: Recoverable costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with PURA regulation. These costs earn a return. For further information, see Note 9A, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Benefit Costs: Deferred benefit costs represent unrecognized actuarial losses and gains and unrecognized prior service costs and credits attributable to Yankee Gas's participation in Eversource's Pension and PBOP Plans. Yankee Gas records actuarial losses and gains and prior service costs and credits arising at the December 31st remeasurement date of the funded status of the benefit plans as a regulatory asset or regulatory liability in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset or regulatory liability is amortized with the recognition of actuarial losses and gains and prior service costs and credits to net periodic benefit expense/income over the estimated average future employee service period using the corridor approach. As these regulatory assets or regulatory liabilities do not represent a cash outlay for Yankee Gas, no carrying charge is recovered from customers.

Hardship Customer Receivables: Yankee Gas has recorded regulatory assets for the reserve for customer receivables that qualify under Connecticut's Matching Payment Program and hardship protection plans (hardship accounts receivable), which represent uncollectible amounts attributable to qualified customers under financial or medical duress outstanding for greater than 90 days. These deferred costs are included in rate base. The PURA approved an allowed annual level of recoverable hardship costs. For further information regarding hardship accounts receivable, see Note 1D, "Summary of Significant Accounting Policies - Allowance for Uncollectible Accounts," to the financial statements.

Regulatory Costs in Other Long-Term Assets: Yankee Gas had \$4.4 million and \$5.0 million of additional regulatory costs as of December 31, 2022 and 2021, respectively, that were included in Other Long-Term Assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the PURA. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

Regulatory Liabilities: The components of regulatory liabilities were as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
EDIT Due to Tax Cuts and Jobs Act of 2017	\$ 170.1	\$ 171.6
Regulatory Tracking Mechanisms	28.3	14.9
Other Regulatory Liabilities	13.6	8.2
Total Regulatory Liabilities	212.0	194.7
Less: Current Portion	3.8	13.1
Total Long-Term Regulatory Liabilities	\$ 208.2	\$ 181.6

EDIT due to Tax Cuts and Jobs Act of 2017: Pursuant to the Tax Cuts and Jobs Act of 2017, Yankee Gas had remeasured its existing deferred federal income tax balances to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (excess ADIT or EDIT) liabilities that will benefit our customers in future periods and were recognized as regulatory liabilities on the balance sheet. EDIT liabilities related to property, plant, and equipment are subject to IRS normalization rules and will be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC. The cost of repairs and maintenance is charged to Operations and Maintenance expense as incurred.

The following table summarizes property, plant and equipment:

(Millions of Dollars)	As of December 31,	
	2022	2021
Natural Gas Distribution, Gross	\$ 2,675.5	\$ 2,516.3
Less: Accumulated Depreciation	(517.4)	(502.8)
Property, Plant and Equipment, Net	2,158.1	2,013.5
Construction Work in Progress	97.7	63.9
Total Property, Plant and Equipment, Net	\$ 2,255.8	\$ 2,077.4

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates, which are subject to approval by the PURA, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 2.3 percent in both 2022 and 2021. As of December 31, 2022, the average remaining useful life of Yankee Gas' depreciable assets was 45.5 years.

4. ASSET RETIREMENT OBLIGATIONS

Yankee Gas recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. Management has identified AROs related to the removal of hazardous materials and the cutting and capping of natural gas mains, and has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a long-term liability with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As Yankee Gas is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and both the depreciation and accretion costs associated with the AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities is as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
Balance as of Beginning of Year	\$ 4.9	\$ 4.6
Accretion	0.2	0.3
Balance as of End of Year	\$ 5.1	\$ 4.9

5. SHORT-TERM DEBT

The Eversource Energy holding company (Eversource parent) has a \$2.00 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent and certain of its subsidiaries, including Yankee Gas, are parties to a five-year \$2.00 billion revolving credit facility, which terminates on October 15, 2027. The revolving credit facility serves to backstop Eversource parent's \$2.00 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2022 or 2021.

As of December 31, 2022 and 2021, there were intercompany loans from Eversource parent to Yankee Gas of \$119.9 million and \$128.3 million, respectively, recorded as Notes Payable to Eversource Parent and classified in current liabilities on the balance sheets as all borrowings are outstanding for no more than 364 days at one time. The weighted-average interest rate on these borrowings as of December 31, 2022 and 2021 was 4.63 percent and 0.31 percent, respectively.

Under the credit facility, Yankee Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. As of December 31, 2022 and 2021, Yankee Gas was in compliance with these covenants. If Yankee Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by Yankee Gas to be repaid, and additional borrowings would not be permitted under the credit facility.

Yankee Gas is not required to obtain approval from any state or federal authority to incur short-term debt.

6. LONG-TERM DEBT

Details of Yankee Gas' long-term debt outstanding are as follows:

		As of December 31,	
(Millions of Dollars)	Interest Rate	2022	2021
First Mortgage Bonds:			
1992 Series B due 2022 ⁽¹⁾	8.48 %	\$ —	\$ 20.0
2019 Series P due 2024	2.23 %	100.0	100.0
2015 Series M due 2025	3.35 %	75.0	75.0
2021 Series S due 2026	1.38 %	90.0	90.0
2017 Series N due 2027	3.02 %	75.0	75.0
2022 Series U due 2032 ⁽²⁾	4.31 %	100.0	—
2005 Series I due 2035	5.35 %	50.0	50.0
2014 Series L due 2044	4.82 %	100.0	100.0
2018 Series O due 2048	4.13 %	50.0	50.0
2019 Series Q due 2049	3.30 %	100.0	100.0
2020 Series R due 2050	2.90 %	70.0	70.0
2021 Series T due 2051	2.88 %	35.0	35.0
Total First Mortgage Bonds		845.0	765.0
Less Amounts due Within One Year		—	(20.0)
Unamortized Premium - Fair Value Adjustment		—	0.1
Unamortized Debt Issuance Costs		(2.8)	(2.6)
Yankee Gas Long-Term Debt		\$ 842.2	\$ 742.5

⁽¹⁾ The Series B first mortgage bonds were repaid at maturity on March 1, 2022.

⁽²⁾ The use of proceeds from the 2022 issuance repaid short-term debt, paid capital expenditures and were for general corporate purposes.

Long-Term Debt Provisions: The utility plant of Yankee Gas is subject to the lien of its first mortgage bond indenture. Additionally, Yankee Gas' long-term debt agreements contain cross-default provisions. The cross-default provisions on all series of Yankee Gas' first mortgage bonds would be triggered if Yankee Gas were to default on a payment due on indebtedness in excess of \$10 million.

7. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource Service sponsors a defined benefit retirement plan (Pension Plan) that covers eligible employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006. Eversource Service's Employer Identification Number is 06-0810627. Eversource's policy is to annually fund the Pension Plan in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plan, Eversource Service sponsors a SERP Plan, which provides benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource Service also sponsors a PBOP Plan that provides life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses to eligible employees that meet certain age and service eligibility requirements. The benefits provided under the PBOP Plan are not vested and Eversource has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

Plan sponsor information is included in the Eversource 2022 Annual Report on Form 10-K filed on February 15, 2023 with the U.S. Securities and Exchange Commission (SEC).

The Pension, SERP and PBOP Plans cover eligible employees, including, among others, employees of Yankee Gas. Yankee Gas records actuarial losses and gains and prior service costs and credits arising at the December 31st remeasurement date of the funded status of the benefit plans as a regulatory asset or regulatory liability in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. Adjustments to the SERP Plan funded status are recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 11, "Accumulated Other Comprehensive Loss," to the financial statements.

Funded Status: Yankee Gas participates in the overall Eversource single-employer Pension, SERP and PBOP Plans accounted for under the multiple-employer approach, with its share of the funded status of the plans reflected on its balance sheets. Although Eversource maintains marketable securities in a benefit trust, the SERP Plan does not contain any assets. The following table provides information on the plan benefit obligations, fair values of plan assets, and funded status attributable to Yankee Gas in the Eversource single-employer Pension, SERP and PBOP Plans:

(Millions of Dollars)	Pension and SERP		PBOP	
	As of December 31,		As of December 31,	
	2022	2021	2022	2021
Benefit Obligation	\$ (161.6)	\$ (209.5)	\$ (21.8)	\$ (28.2)
Fair Value of Plan Assets	176.2	198.2	18.5	21.6
Funded Status	\$ 14.6	\$ (11.3)	\$ (3.3)	\$ (6.6)
Employer Contributions	\$ —	\$ 17.2	\$ —	\$ —
Benefits Paid	8.6	9.1	1.3	1.4
Benefits Paid - SERP	0.2	0.2	N/A	N/A

A reconciliation of the prepaid assets and liabilities within the Pension, SERP and PBOP Plans' funded status to the balance sheets is as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
Prepaid Pension	\$ 16.8	\$ —
Accrued Pension	\$ —	\$ 8.4
Accrued SERP	2.2	2.9
Accrued PBOP	3.3	6.6
Less: Accrued SERP - current portion	(0.2)	(0.2)
Accrued Pension, SERP and PBOP	\$ 5.3	\$ 17.7

Yankee Gas' accumulated benefit obligation for the Pension and SERP Plans was \$147.4 million and \$191.1 million as of December 31, 2022 and 2021, respectively.

The following actuarial assumptions were used in calculating the Pension, SERP and PBOP Plans' year end funded status:

	Pension and SERP				PBOP	
	As of December 31,				As of December 31,	
	2022	2021	2022	2021	2022	2021
Discount Rate	5.2%	2.8%	—	2.9%	5.2%	2.9%
Compensation/Progression Rate	3.5%	3.5%			N/A	N/A

Expense: Eversource charges net periodic benefit plan expense for the Pension, SERP and PBOP Plans to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year. Eversource utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of benefit plan expense, which provides a relatively precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

Yankee Gas' components of net periodic benefit plan expense/(income) for the Pension, SERP and PBOP Plans, prior to amounts capitalized as Property, Plant and Equipment or deferred as regulatory assets/(liabilities) for future recovery, are shown below. The service cost component of net periodic benefit plan expense/(income), less the capitalized portion, is included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit plan expense/(income), less the deferred portion, are included in Other Income, Net on the statements of income. Pension, SERP and PBOP plan expense/(income) reflected in the statements of cash flows does not include intercompany allocations of net periodic benefit plan expense/(income), as these amounts are cash settled on a short-term basis.

	Pension and SERP		PBOP	
	For the Years Ended December 31,		For the Years Ended December 31,	
	2022	2021	2022	2021
(Millions of Dollars)				
Service Cost	\$ 3.5	\$ 4.1	\$ 0.7	\$ 0.8
Interest Cost	5.0	4.5	0.7	0.6
Expected Return on Plan Assets	(15.9)	(12.9)	(1.8)	(1.6)
Actuarial Loss	2.5	7.2	—	0.2
Prior Service Cost	—	—	0.3	0.3
Total Net Periodic Benefit Plan (Income)/Expense	\$ (4.9)	\$ 2.9	\$ (0.1)	\$ 0.3
Intercompany (Income)/Expense Allocations	\$ (2.5)	\$ 2.0	\$ (0.8)	\$ (0.4)

The following actuarial assumptions were used to calculate Pension, SERP and PBOP expense amounts:

	Pension and SERP					PBOP				
	For the Years Ended December 31,					For the Years Ended December 31,				
	2022		2021			2022		2021		
Discount Rate	2.2%	—	3.2%	1.8%	3.0%	2.3%	—	3.3%	1.8%	3.1%
Expected Long-Term Rate of Return	8.25%		8.25%			8.25%		8.25%		
Compensation/Progression Rate	3.5%		3.5%			N/A		N/A		

Contributions: Based on the current status of the Pension Plans and federal pension funding requirements, there is no minimum funding requirement for our Eversource Service Pension Plan in 2023 and we do not expect to make pension contributions in 2023. We do not expect to make any contributions to the Eversource Service PBOP Plan in 2023.

B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants, including, among others, employees of Yankee Gas. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, for Yankee Gas were \$2.2 million for each of the years ended December 31, 2022 and 2021.

8. INCOME TAXES

The components of income tax expense were as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,	
	2022	2021
Current Income Taxes:		
Federal	\$ (7.8)	\$ 4.8
State	(3.5)	3.2
Total Current	(11.3)	8.0
Deferred Income Taxes, Net:		
Federal	28.0	14.5
State	(0.4)	(0.6)
Total Deferred	27.6	13.9
Investment Tax Credits, Net	(0.1)	(0.1)
Income Tax Expense	\$ 16.2	\$ 21.8

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

<i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,	
	2022	2021
Income Before Income Tax Expense	\$ 103.0	\$ 99.0
Statutory Federal Income Tax Expense at 21%	21.6	20.8
Tax Effect of Differences:		
State Income Taxes, Net of Federal Impact	(8.0)	(3.6)
EDIT Amortization	(1.1)	(1.2)
Depreciation	(0.8)	(0.1)
Investment Tax Credit Amortization	(0.1)	(0.1)
Other, Net	4.6	6.0
Income Tax Expense	\$ 16.2	\$ 21.8
Effective Tax Rate	15.7 %	22.0 %

Yankee Gas files a consolidated federal income tax return with Eversource and also files state income tax returns. Yankee Gas is party to a tax allocation agreement with Eversource under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

The PURA requires that the tax effect of certain property, plant and equipment related temporary differences that directly impact Yankee Gas' customers receive "flow-through" treatment. Using flow-through treatment, the deferred tax expense is included in determining customers' rates. Flow-through treatment can result in effective income tax rates that are different than statutory income tax rates and therefore are part of the income tax rate reconciliation for Yankee Gas. Recording deferred taxes on flow-through items is required by relevant accounting guidance and the offset to the deferred tax amounts is a regulatory asset or liability.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the PURA and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations were as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
Deferred Tax Assets:		
Tax Effect - Tax Regulatory Liabilities	\$ 51.4	\$ 51.8
Allowance for Uncollectible Accounts	15.8	12.6
Employee Benefits	6.5	9.1
Regulatory Deferrals - Liabilities	3.6	0.8
Other	1.9	2.0
Total Deferred Tax Assets	\$ 79.2	\$ 76.3
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	\$ 302.7	\$ 282.7
Property Tax Accruals	5.9	5.9
Regulatory Amounts:		
Regulatory Deferrals - Assets	59.0	38.6
Tax Effect - Tax Regulatory Assets	26.4	23.2
Other	—	(2.5)
Total Deferred Tax Liabilities	\$ 394.0	\$ 347.9

2022 Federal Legislation: On August 16, 2022, the Inflation Reduction Act of 2022 (IRA) was signed into law. This is a broad package of legislation that includes incentives and support for clean energy resource development, which do not pertain to Yankee Gas. In addition, the IRA includes other tax provisions focused on implementing a 15 percent minimum tax on adjusted financial statement income and a one percent excise tax on corporate share repurchases. The Department of Treasury and the Internal Revenue Service issued limited guidance in the fourth quarter; however, they are expected to issue additional needed guidance with respect to the application of the newly enacted IRA provisions in the future. We will continue to monitor and evaluate impacts; however the alternative minimum tax is not expected to have a material impact on Yankee Gas.

2021 Federal Legislation: On November 5, 2021, Congress passed the Infrastructure Investment and Jobs Act. The Act provided spending of more than \$500 billion on roads, highways, bridges, public transit, and utilities. The Act did not have a material impact on Yankee Gas in 2021.

Carryforwards: The following table provides the amounts and expiration dates of state tax credit carryforwards:

(Millions of Dollars)	As of December 31, 2022		As of December 31, 2021	
	Total	Expiration Range	Total	Expiration Range
State Tax Credit	\$ 39.6	2022 - 2027	\$ 37.5	2021 - 2026

Unrecognized Tax Benefits: A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate, if recognized, is as follows:

(Millions of Dollars)	
Balance as of January 1, 2021	\$ 34.2
Gross Increases - Current Year	7.1
Lapse of Statute of Limitations	(3.7)
Balance as of December 31, 2021	37.6
Gross Increases - Current Year	7.8
Lapse of Statute of Limitations	(5.8)
Balance as of December 31, 2022	\$ 39.6

Interest and Penalties: Interest on uncertain tax positions is recorded and generally classified as a component of Interest Expense on the statements of income. However, when resolution of uncertainties results in Yankee Gas receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income. No penalties have been recorded. There has been no interest expense or income recognized on uncertain tax positions for the years ended December 31, 2022 and 2021. The accrued interest payable was \$0.1 million as of both December 31, 2022 and 2021.

Tax Positions: During 2022 and 2021, Yankee Gas did not resolve any of its uncertain tax positions.

Open Tax Years: The following table summarizes Yankee Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2022:

Description	Tax Years
Federal (Eversource consolidated)	2022
Connecticut	2019 - 2022

While tax audits are currently ongoing, it is reasonably possible that one or more of these open tax years could be resolved within the next twelve months. Yankee Gas does not currently estimate potential resolutions of differences of a non-timing nature.

9. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

Yankee Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Yankee Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are primarily comprised of former manufactured gas plant (MGP) sites that were operated several decades ago and manufactured natural gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which Yankee Gas may have potential liability.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of Yankee Gas' responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to required environmental remediation. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves is as follows:

(Millions of Dollars)	As of December 31,	
	2022	2021
Balance as of Beginning of Year	\$ 43.2	\$ 35.5
Additions	4.3	8.8
Payments/Reductions	(1.0)	(1.1)
Balance as of End of Year	\$ 46.5	\$ 43.2

The Company has 15 environmental sites as of December 31, 2022. As of December 31, 2022, for three environmental sites that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2022, \$4.4 million has been accrued as a liability for these sites.

As of December 31, 2022, for six of the 15 environmental sites that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2022, \$29.3 million has been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately \$16.6 million may be incurred in executing current remediation plans for these sites.

As of December 31, 2022, for the remaining six environmental sites that are included in the Company's reserve for environmental costs, the \$12.8 million accrual represents management's best estimate of the probable liability and no additional loss is estimable at this time.

Environmental Rate Recovery: Yankee Gas has a rate recovery mechanism for MGP related environmental costs, therefore, changes in environmental reserves do not impact Net Income.

B. Long-Term Contractual Arrangements

The estimated future annual costs of Yankee Gas' significant executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2022 are as follows:

<i>(Millions of Dollars)</i>	2023	2024	2025	2026	2027	Thereafter	Total
Natural Gas Procurement	\$ 151.0	\$ 137.8	\$ 100.3	\$ 90.8	\$ 79.7	\$ 306.5	\$ 866.1

In the normal course of business, Yankee Gas has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2034. The total cost incurred under these agreements was \$337.9 million and \$229.7 million in 2022 and 2021, respectively.

C. Litigation and Legal Proceedings

Yankee Gas is involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Yankee Gas' long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings and treasury benchmark yields.

The carrying amount of Yankee Gas' long-term debt was \$842.2 million and \$762.5 million as of December 31, 2022 and 2021, respectively. The estimated fair values of these financial instruments were \$723.0 million and \$826.1 million as of December 31, 2022 and 2021, respectively. These fair values were classified as Level 2 within the fair value hierarchy. See Note 1F, "Summary of Significant Accounting Policies - Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss by component, net of tax, are as follows:

<i>(Millions of Dollars)</i>	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Qualified Cash Flow Hedging Instruments	SERP Plan	Total	Qualified Cash Flow Hedging Instruments	SERP Plan	Total
Balance as of Beginning of Year	\$ (0.4)	\$ (0.2)	\$ (0.6)	\$ (0.4)	\$ (0.4)	\$ (0.8)
OCI Before Reclassifications	—	0.4	0.4	—	—	—
Amounts Reclassified from AOCL	—	0.2	0.2	—	0.2	0.2
Net OCI	—	0.6	0.6	—	0.2	0.2
Balance as of End of Year	\$ (0.4)	\$ 0.4	\$ —	\$ (0.4)	\$ (0.2)	\$ (0.6)

Other Comprehensive Income (OCI) amounts before reclassifications relate to actuarial gains and losses that arose during the year on the SERP Plan and were recognized in AOCL. The unamortized actuarial gains and losses on the SERP Plan are amortized from AOCL into Other Income, Net over the average future employee service period, and are reflected in amounts reclassified from AOCL.

12. COMMON STOCK

Yankee Gas had 1,000 shares of common stock authorized, issued and outstanding at a \$5 per share par value as of December 31, 2022 and 2021.

13. REVENUES

Revenue is recognized when promised goods or services (referred to as performance obligations) are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A five-step model is used for recognizing and measuring revenue from contracts with customers, which includes identifying the contract with the customer, identifying the performance obligations promised within the contract, determining the transaction price (the amount of consideration to which the Company expects to be entitled), allocating the transaction price to the performance obligations and recognizing revenue when (or as) the performance obligation is satisfied.

The following table presents operating revenues disaggregated by revenue source:

(Millions of Dollars)	For the Years Ended December 31,	
	2022	2021
Revenues from Contracts with Customers		
Retail Tariff Sales		
Residential	\$ 326.2	\$ 287.8
Commercial	277.9	224.8
Industrial	99.6	82.3
Total Retail Tariff Sales Revenues	703.7	594.9
Wholesale Market Sales Revenues	13.2	6.9
Other Revenues from Contracts with Customers	2.8	0.5
Total Revenues from Contracts with Customers	719.7	602.3
Alternative Revenue Programs	(13.1)	7.0
Other Revenues	0.2	(0.1)
Total Operating Revenues	\$ 706.8	\$ 609.2

Retail Tariff Sales: Yankee Gas provides products and services to its regulated customers under rates, pricing, payment terms and conditions of service, regulated by the PURA. The arrangement whereby a utility provides commodity service to a customer for a price approved by its state regulatory commission is referred to as a tariff sale contract, and the tariff governs all aspects of the provision of regulated services by the utility. The majority of revenue for Yankee Gas is derived from regulated retail tariff sales for the sale and distribution of natural gas to residential, commercial and industrial retail customers.

The utility's performance obligation for the regulated tariff sales is to provide natural gas to the customer as demanded. The promise to provide the commodity represents a single performance obligation, as it is a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the utility, and the utility satisfies its performance obligation. Revenue is recognized based on the output method as there is a directly observable output to the customer (natural gas units delivered to the customer and immediately consumed). Yankee Gas is entitled to be compensated for performance completed to date (service taken by the customer) until service is terminated.

In regulated tariff sales, the transaction prices are the rates approved by the state regulatory commission. In general, rates can only be changed through formal proceedings with the state regulatory commission. These rates are designed to recover the costs to provide service to customers and include a return on investment. Regulatory commission-approved tracking mechanisms are included in these rates and are also used to recover, on a fully-reconciling basis, certain costs, such as the procurement of natural gas, system expansion costs, infrastructure improvement costs, and energy efficiency programs. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred and the refund of any overcollection of costs.

A significant portion of Yankee Gas' retail revenues relate to the recovery of costs incurred for the sale of natural gas purchased on behalf of customers. These natural gas supply costs are recovered from customers in rates through a cost tracking mechanism. Natural gas purchases are recorded in Cost of Natural Gas, and the sale of natural gas associated with these purchases is recorded in Operating Revenues on the statements of income.

Certain eligible customers may elect to purchase natural gas from the Company or may contract separately with a gas supply operator. Revenue is not recorded for the sale of the natural gas commodity to customers who have contracted separately with these operators, only the delivery to a customer, as the utility is acting as an agent on behalf of the gas supply operator.

Wholesale Market Sales Revenues: Wholesale market sales transactions include sales of natural gas to third party marketers. For sales of natural gas, transportation, and natural gas pipeline capacity to third party marketers, revenue is recognized when the performance obligation is satisfied at the point in time the sale occurred and the natural gas or related product is transferred to the marketer.

Other Revenues from Contracts with Customers: Other revenues from contracts with customers primarily include property rentals that are not deemed leases. These revenues are generally recognized on a straight-line basis over time as the service is provided to the customer.

Alternative Revenue Programs: In accordance with accounting guidance for rate-regulated operations, certain rate making mechanisms qualify as alternative revenue programs (ARPs) if they meet specified criteria, in which case revenues may be recognized prior to billing based on allowed levels of collection in rates. Yankee Gas recognizes revenue and records a regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs. ARP revenues include both the recognition of the deferral adjustment to ARP revenues, when the regulator-specified condition or event allowing for additional billing or refund has occurred, and an equal and offsetting reversal of the ARP deferral to revenues as those amounts are reflected in the price of service in subsequent periods.

Yankee Gas' ARPs include a revenue decoupling mechanism. Decoupled distribution revenues are not directly based on sales volumes. Yankee Gas reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues, with any difference between the allowed level of distribution revenue and the actual amount realized adjusted through subsequent rates.

Other Revenues: Other Revenues include certain fees charged to customers that are not considered revenue from contracts with customers.

Receivables: Receivables, Net on the balance sheets primarily includes trade receivables from retail customers, wholesale market sales of natural gas and capacity to marketers, and property rentals. In general, retail tariff customers are billed monthly and the payment terms are generally due and payable upon receipt of the bill.

Unbilled Revenues: Unbilled Revenues on the balance sheets represent estimated amounts due from retail customers for natural gas delivered to customers but not yet billed. The Company has satisfied its performance obligation and the customer has received and consumed the commodity as of the balance sheet date, and therefore, the Company records revenue for those services in the period the services were provided. Only the passage of time is required before the Company is entitled to payment for the satisfaction of the performance obligation. Payment from customers is due monthly as services are rendered and amounts are billed. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenue estimates reflect seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. Yankee Gas records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

Practical Expedients: Yankee Gas has elected practical expedients in the accounting guidance that allow the Company to record revenue in the amount that the Company has a right to invoice, if that amount corresponds directly with the value to the customer of the Company's performance to date, and not to disclose related unsatisfied performance obligations. Retail tariff sales fall into this category, as these sales are recognized as revenue in the period the utility provides the service and completes the performance obligation, which is the same as the monthly amount billed to customers. There are no other material revenue streams for which Yankee Gas has unsatisfied performance obligations.

14. GOODWILL

Yankee Gas recorded \$287.6 million of goodwill related to the acquisition of the parent of Yankee Gas in 2000. This goodwill is not being recovered from its customers.

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses.

In assessing goodwill for impairment, an entity is permitted to first assess qualitatively whether it is more likely than not that goodwill impairment exists as of the annual impairment test date. A quantitative impairment test is required only if it is concluded that it is more likely than not that a reporting unit's fair value is less than its carrying amount. The annual goodwill assessment included a qualitative evaluation of multiple factors that impact fair value, including general, macroeconomic and market conditions, and entity-specific assumptions that affect its future cash flows. Key considerations include discount rates, market performance and merger transaction multiples, credit ratings, financial performance, cost and risk factors, internal estimates and projections of future cash flows and net income, long-term strategy, the timing and outcome of rate cases, and recent regulatory and legislative proceedings. Yankee Gas completed its annual goodwill impairment assessment as of October 1, 2022 and determined that no impairment existed. There were no events subsequent to October 1, 2022 that indicated impairment of goodwill.